



**QUESTION NO.1 and 2 are compulsory and attempt any four from the rest**

**QUESTION NO.1**

**M.C.Q NO . 1 TO 20 carries 1 mark each**

**M.C.Q NO . 21 TO 25 carries 2 marks each**

1. Scope of Audit depends on which factors :

- (a) Terms of Engagement
- (b) Applicable Laws & Regulations
- (c) ICAI Pronouncements
- (d) All of the above

2. The auditor shall develop an audit plan that shall include a description of:

- (a) The nature, timing and extent of planned risk assessment procedures
- (b) The nature, timing and extent of planned further audit procedures at the assertion level.
- (c) Other planned audit procedures that are required to be carried out so that the engagement complies with SAs.
- (d) All of the above

3. A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.

- (a) Positive confirmation request
- (b) Non Response
- (c) Negative Confirmation request
- (d) Exception

4. Knowledge of the entity's business does not help the auditor to

- a) Reduce inherent risk
- b) Identify problem areas
- c) Evaluate reasonableness of estimates
- d) Evaluate appropriates of GAAP

5. An auditor should study and evaluate internal controls to

- a) Determine whether assets are safeguarded
- b) Suggest improvements in internal control
- c) Plan audit procedures
- d) Express and opinion

6. Misappropriation of assets may occur because there is-

- (a) Adequate record keeping with respect to assets.
- (b) Known history of violations of securities laws.
- (c) Lack of complete and timely reconciliations of assets.
- (d) Dispute between shareholders in a closely held entity.

7. Which of the following statements is not true
- (a) A partnership firm can be appointed as a statutory auditor of limited company
  - (b) Appointment can be made in the name of the firm
  - (c) Majority of the partners should be CA's practicing in India
  - (d) All partners should be chartered accountants
8. A statutory auditor has a right to access to which of the following documents at all times:
- (a) Books, Vouchers and accounts of the company
  - (b) Books, Vouchers and accounts of the Company's subsidiary
  - (c) Books and account's of the Company's associate company
  - (d) All of the above
9. Who shall fill the casual vacancy in the office of an auditor of a non government company, arising out of resignation
- (a) The BOD within 30 days
  - (b) C&AG within 30 days
  - (c) Shareholders within 30 days
  - (d) BOD within 30 days. But shareholders need to ratify within 3 months
10. SA-700 requires the use of specific headings, which are intended to assist in making auditor's reports that refer to audits that have been conducted in accordance with SAs more recognizable. Which of the following is that specific heading :
- (a) Key audit matters
  - (b) Basis of opinion
  - (c) Date
  - (d) All of the above
11. A departure from recognized accounting principle is disclosed in a note to the financial statements. The auditor should
- a) Issue a standard unmodified audit report
  - b) Issue a qualified report
  - c) Issue an unqualified report with 'emphasis of matter' paragraph
  - d) Disclaim opinion
12. The standard that requires auditors to analyse journal entries in an audit is?
- (a) SA 260
  - (b) SA 230
  - (c) SA 315
  - (d) SA 240
13. The Guidance Note on Audit of Internal Financial Controls over Financial Reporting has been issued by?
- (a) ICAI
  - (b) SEBI
  - (c) MCA
  - (d) RBI

14. Tolerable error, is the maximum monetary error that the auditor is prepared to accept in the population and still conclude that audit objective has been achieved, is directly related to
- (a) Sample size
  - (b) Audit risk
  - (c) Materiality
  - (d) Expected error
15. Which of the following is more scientific :
- (a) Statistical
  - (b) Non- statistical
  - (c) both (a) and (b)
  - (d) none of the above
16. Analytical procedures issued in the planning stage of an audit, generally:
- (a) helps to determine the nature, timing and extent of other audit procedures
  - (b) directs attention to potential risk areas
  - (c) indicates important aspects of business
  - (d) All of the above
17. What are analytical procedures?
- (a) Substantive tests designed to assess control risk
  - (b) Substantive tests designed to evaluate the validity of management's representation letter
  - (c) Substantive tests designed to study relationships between financial and non-financial
  - (d) All of the above
18. Article 151 requires that the reports of the C&AG relating to the accounts of the Union/State shall be submitted to the ----- who shall cause them to be laid before House of Parliament/State Legislature
- (a) President/Governor
  - (b) Prime Minister/ Chief Minister
  - (c) Union Finance Minister/State Finance Minister
  - (d) All of the above
19. Which of the following is not an example of revenue expenditure -
- (a) Salaries and wages of employees engaged directly or in-directly in production
  - (b) Repairs, maintenance and renewals of fixed assets
  - (c) Legal and professional expenses
  - (d) Development expenditure on land

20. During the course of audit of intangible assets, expenditure incurred during following phase is generally not capitalised:

- (a) Development phase
- (b) Research phase
- (c) None of the above
- (d) Both (a) and (b)

21. Which of the following is incorrect :

- a. According to Section 140(1), the auditor appointed under section 139 may be removed from his office before the expiry of his term only by a special resolution of the company, after obtaining the previous approval of the Central Government in that behalf as per Rule 7 of CAAR, 2014-
- b. The application to the Central Government for removal of auditor shall be made in Form ADT -2 and shall be accompanied with fees as provided for this purpose under the Companies (Registration Offices and Fees) Rules, 2014.
- c. The application shall be made to the Central Government within 30 days of the resolution passed by the Board.
- d. The company shall hold the general meeting within 30 days of receipt of approval of the Central Government for passing the special resolution.

22. Which of the following is incorrect :

- a. Inquiry consists of seeking information of unknown persons, both financial and non- financial, within the entity or outside the entity.
- b. Inquiry is used extensively throughout the audit in addition to other audit procedures.
- c. Inquiries may range from formal written inquiries to informal oral inquiries. Evaluating responses to inquiries is an integral part of the inquiry process.
- d. Responses to inquiries may provide the auditor with information not previously possessed or with corroborative audit evidence.

23. Which of the following is incorrect :

- a. Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements.
- b. Similar to responses to inquiries, written representations are audit evidence.
- c. Written representations are requested from those responsible for the preparation and presentation of the financial statements.
- d. Written representations provide necessary audit evidence and also they provide sufficient appropriate audit evidence on their own about any of the matters with which they deal.

24. Which of the following is correct in case of Banks :

- a. The policy of income recognition should be subjective.
- b. The policy of income recognition should be objective and based on record of recovery rather than on any subjective considerations.
- c. The policy of income recognition should be objective.
- d. The policy of income recognition may be objective or subjective.

25. Which of the following is correct :

- a. The auditor shall express a qualified opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
- b. The auditor shall express a disclaimer opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
- c. The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
- d. The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements

## QUESTION NO.2

**State with reasons (in short) whether the following statements are correct or incorrect:**

**(7\*2 = 14 MARKS)**

1. There is no difference between reserves and provision.
2. Only purpose of analytical procedures is to obtain relevant and reliable audit evidence when using substantive analytical procedures.
3. Specialised audit tools like IDEA, ACL are required to perform data analytics.
4. The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.
5. Manner of rotation of auditor will not be applicable to company A, which is having paid up share capital of Rs. 15 crores and having public borrowing from nationalized bank of Rs.50 crore because it is a Private Limited Company.
6. According to SA 530 "Audit sampling", 'audit sampling' refers to the application of audit procedures to 100% of items within a population of audit relevance.
7. Other matter paragraph is paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

### QUESTION NO.3

- A. "Audit documentation summary may facilitate effective and efficient reviews and inspections of the audit documentation, particularly for large and complex audits". Explain. **(4 MARKS)**
- B. The practice of appointing Chartered Accountants as joint auditors is quite widespread in big companies and corporations. Explain stating the advantages of the joint audit. **(6 MARKS)**
- C. Explain clearly the purpose of communicating key audit matters. **(4 MARKS)**

### QUESTION NO.4

- A. Audit programme is the key element to initiate an audit. Describe the correctness of this statement with the points to be kept in mind by an auditor to start an audit programme. **(5 MARKS)**
- B. With reference to Standard on Auditing 530, state the requirements relating to audit sampling, sample design, sample size and selection of items for testing. **(4 MARKS)**
- C. Explain techniques available as substantive analytical procedures. **(5 MARKS)**

### QUESTION NO.5

- A. Although fraud is a broad legal concept, for the purposes of the SAs, the auditor is concerned with fraud that causes a material misstatement in the financial statements. Explain. **(4 MARKS)**
- B. Verification of liabilities is as important as that of assets, considering if any liability is omitted (or understated) or overstated, the Balance Sheet would not show a true and fair view of the state of affairs of the entity. Explain stating also criteria for a liability to be classified as current liability. **(4 MARKS)**
- C. The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because there are inherent limitations of an audit. Explain. **(6 MARKS)**

### QUESTION NO.6

- A. State the matters to be included in the auditor's report as per CARO, 2016 regarding-
- (a) in case the company has accepted deposits
  - (b) Nidhi company
- (2\*2 = 4 MARKS)**
- B. The auditor should examine the efficacy of various internal controls over advances in case of Banks to determine the nature, timing and extent of his substantive procedures. Explain what is included in the internal controls over advances. **(6 MARKS)**
- C. "When deviations from controls upon which the auditor intends to rely are detected, the auditor shall make specific inquiries to understand these matters and their potential consequences" Explain. **(4 MARKS)**

### QUESTION NO.7

- A. RGS & Co. a firm of Chartered Accountants has three partners, namely, R, G & S. The firm is allotted the audit of BY Ltd. R, partner in the firm subsequently holds 100 shares in BY Ltd. Comment. **(4 MARKS)**
- B. The reliability of data is influenced by its source and nature and is dependent on the circumstances under which it is obtained. Accordingly, explain the factors that are relevant when determining whether data is reliable for purposes of designing substantive analytical procedures. **(5 MARKS)**
- C. The auditor shall evaluate the results of the sample and whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested. Explain **(5 MARKS)**